KARPAGAM ACADEMY OF HIGHER EDUCATION

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Department of Management

Name: **C.Sagunthala (Assistant Professor)**
Department: **Management**
Subject Code: **18MBAPF402A** Semester: **IV** Year: **2018 - 20 Batch**
Subject: **Banking and Insurance - Lesson Plan**

UNIT 1			
Sl. No	**Lecture Hours**	**Contents**	**References**
1	1	History of Banking Business and Banker	T7: Page No: 1-12 T2: Page No: 2-4,17-19
2	1	Banking system and its impact in the economy	T2: Page No: 38-40
3	1	RBI – Acts and Regulations – Role and functions of RBI	T7: Page No: 122-130
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6	1	CRR and SLR - Case study	T2: Page No: 139-145
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Total Number of hours planned for Unit 1			**07**
UNIT 2			
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3	1	Current development – Retail banking	T7: Page No:38-42
4	1	Corporate banking – International banking - NBFCs	T7: Page No:42-45
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6	1	Credit and Debit cards – ECS, NEFT, RTGS	T7: Page No:59-66
7	1	Risks in e-banking	T7: Page No:66-67
8	1	Case study - Recapitulation and discussion of important questions	
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UNIT 3			
1	1	Savings and Deposit products	T2: Page No: 20-23
2	1	Loans and Advances	T7: Page No: 68-81
3	1	Priority sector lending	T7: Page No: 83-90

4	1	Export credit – Risk Management in banks – An overview	T7: Page No: 92-97
5	1	Risk Management in banks	T7: Page No:138-153
6	1	Case study	
7	1	Recapitulation and discussion of important questions	
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UNIT 4			
1	1	Introduction to Insurance: History – Purpose and importance	T3:Page No: 2-5 T7:Page No: 156-158
2	1	Functions – benefits - Classification of Insurance policies	T3:Page No: 43-79 T7:Page No: 158-161,170-172
3	1	Classification of Insurance policies, Insurance contracts	T7:Page No: 161-165,165-168
4	1	Assurance – Legal and Regulatory framework	T7:Page No: 169-170
5	1	Regulator – IRDA - Need for life and health insurance	T2:Page No:202-209
6	1	Classification of health policies – Advantages	T7:Page No: 178-196
7	1	Comparison of different policies - Role of hospitals and TPAs	T2:Page No:211-218
8	1	Government sponsored schemes - Recapitulation and discussion of important questions	T2:Page No: 222-228
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UNIT 5			
1	1	Motor vehicles Insurance and Marine Insurance – Importance of vehicle and Marine Insurance	T7: Page No: 220-232,235-242, 249-264,269-273,304-312
2	1	Legal terms - Classification of Policies	T3: Page No:-43-79
3	1	Claims and settlement	T7: Page No:217 T3: Page No:297-303,388-393
4	1	Other types of Insurance: Fire Insurance, Flood,	T2: Page No: 363-367,359-362 T7: Page No:212-217
5	1	Burglary, Cattle, Crop	T7: Page No:256-263 T2: Page No:436-461
6	1	Engineering and Liability Policies – Reinsurance	T1: Page No:468-488,394-400,658-661
7	1	Case study - Recapitulation and discussion of Important questions	
Total Number of hours planned for Unit 5			**07**
8	1	Discussion of previous year ESE Question papers	
9	1	Discussion of previous year ESE Question papers	
10	1	Discussion of previous year ESE Question papers	

Total Number of hours planned for Unit 5 and discussion of previous year ESE Question papers	07+3 =10

Suggested Readings:

Text books:

1. Padmalatha Suresh and Justin Paul,(2017). Management of Banking and Financial Services, 4th Edition, New Delhi: Pearson Education
2. Agarwal,O.P. (2017). Banking and Insurance, New Delhi: Himalaya Publishing House
3. Mishra,M.N (2016), Insurance Principles and Practice, 22nd Edition, New Delhi: S.Chand Publishing
4. Gupta.P.K.(2015). Insurance and Risk Management, New Delhi: Himalaya Publishing House
5. Toor,N.S.(2015), Hand Book of Banking Information, 40th Edition, Skylark Publications
6. Varshney,P.N,(2014). Banking Law and Practice, New Delhi: Sultan Chand and Sons
7. Jyotsna Sethi, and Nishwan Bhatia, (2012). Elements of Banking and Insurance, 2nd Edition, New Delhi: PHI

Website:

1. www.rbi.org.in
2. www.finmin.nic.in
3. www.indiabudget.nic.in
4. http://economics.harvard.edu/
5. http://indiainbusiness.nic.in/newdesign/index.php
6. www.macroscan.org

UNIT-I-Introduction to Banking

SYLLABUS

Unit – I : **Introduction:** History of Banking Business and Banker - Banking system and its impact in the economy - RBI – Acts and Regulations – Role and functions of RBI - Role and functions of RBI - Monetary Policy and tools - Policy rates, CRR and SLR .

Origin of Banking

The banking history is interesting and reflects evolution in trade and commerce. It also throws light on living style, political and cultural aspects of civilized mankind. The strongest faith of people has always been religion and God. The seat of religion and place of worship were considered safe place for money and valuables. The history of banking begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. In olden times people deposited their money and valuables at temples, as they are the safest place available at that time. The practice of storing precious metals at safe places and loaning money was prevalent in ancient Rome.

However modern Banking is of recent origin. The development of banking from the traditional lines to the modern structure passes through Merchant bankers, Goldsmiths, Money lenders and Private banks. Merchant Bankers were originally traders in goods. Gradually they started to finance trade and then become bankers. Goldsmiths are considered as the men of honesty, integrity and reliability. They provided strong iron safe for keeping valuables and money. They issued deposit receipts (Promissory notes) to people when they deposit money and valuables with them. The goldsmith paid interest on these deposits. Apart from accepting deposits, Goldsmiths began to lend a part of money deposited with them. Then they became bankers who perform both the basic banking functions such as accepting deposit and lending money. Money lenders were gradually replaced by private banks. Private banks were established in a more organised manner. The growth of Joint stock commercial banking was started only after the enactment of Banking Act 1833 in England

Meaning and definition of Bank

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. The term bank is either derived from old Italian word banca or from a French word banque both mean a Bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Definition of a Bank

Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

According to H. L. Hart, a banker is ―one who in the ordinary course of his business honours cheques drawn upon him by person from and for whom he receives money on current accounts‖. Banking Regulation Act of 1949 defines banking as ―accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise‖.

Banker Customer relationship

Who is a 'Customer'?

The term Customer has not been defined by any act. The word _customer' has been derived from the word _custom', which means a _habit or tendency' to-do certain things in a regular or a particular manner's .In terms of Sec.131 of Negotiable Instrument Act, when a banker receives payment of a crossed cheque in good faith and without negligence for a customer, the bank does not incur any liability to the true owner of the cheque by reason only of having received such
payment. It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship.

It is generally believed that any individual or an organisation, which conducts banking transactions with a bank, is the customer of bank. However, there are many persons who do utilize services of banks, but do not maintain any account with the bank.

Thus bank customers can be categorized in to four broad categories as under:

- Those who maintain account relationship with banks i.e. Existing customers.
- Those who had account relationship with bank i.e. Former Customers
- Those who do not maintain any account relationship with the bank but frequently visit branch of a bank for availing banking facilities such as for purchasing a draft, encashing a cheque, etc. Technically they are not customers, as they do not maintain any account with the bank branch.
- Prospective/ Potential customers: Those who intend to have account relationship with the bank. A person will be deemed to be a 'customer' even if he had only handed over the account opening form duly filled in and signed by him to the bank and the bank has accepted the it for opening the account, even though no account has actually been opened by the bank in its books or record.

The practice followed by banks in the past was that for opening account there has to be an initial deposit in cash. However the condition of initial cash deposit for opening the account appears to have been dispensed with the opening of _No Frill' account by banks as per directives of Reserve Bank of India. _No Frill' accounts are opened with _Nil' or with meager balance.

The term 'customer' is used only with respect to the branch, where the account is maintained. He cannot be treated as a _customer' for other branches of the same bank. However with the implementation of'_Core Banking Solution'the customer is the customer of the bank and not of a particular branch as he can operate his account from any branch of the bank and from anywhere. In the event of arising any cause of action, the customer is required to approach the branch with which it had opened account and not with any other branch.

Banker-Customer Relationship:

Banking is a trust-based relationship. There are numerous kinds of relationship between the bank and the customer. The relationship between a banker and a customer depends on the type of transaction. Thus the relationship is based on contract, and on certain terms and conditions.

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its customers is the long lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers. The banker customer relationship is fiducial relationship. The terms and conditions governing the relationship is not be leaked by the banker to a third party.

Classification of Relationship:

The relationship between a bank and its customers can be broadly categorized in to General Relationship and Special Relationship. If we look at Sec 5(b) of Banking Regulation Act, we would notice that bank‘s business hovers around accepting of deposits for the purposes of lending, thus the relationship arising out of these two main activities are known as General Relationship. In addition to these two activities banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship.

General Relationship:

1. **Debtor-Creditor**: When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank‘s property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the manner of utilization of funds deposited by him. Bank does not give any security to the depositor i.e. debtor. The bank has borrowed money and it is only when the depositor demands, banker pays. Bank‘s position is quite different from normal debtors.

Banker does not pay money on its own, as banker is not required to repay the debt voluntarily. The demand is to be made at the branch where the account exists and in a proper manner and during working days and working hours.

The debtor has to follow the terms and conditions of bank said to have been mentioned in the account opening form. {Though the terms and conditions are not mentioned in the account opening form, but the account opening form contains a declaration that the terms and conditions have been read and understood or has been explained. In fact the terms and conditions are mentioned in the passbook, which is issued to the customer only after the account has been opened.}

In the past while opening account some of the banks had the practice of giving a printed handbill containing the terms and conditions of account along with the account are opening form. This practice has since been discontinued. For convenience and information of prospective customers a few banks have uploaded the account opening form, terms and conditions for opening account, rate charge in respect of various services provided by the bank etc., on their web site.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor as it owns money to the payee/ beneficiary.

2**. Creditor–Debtor**: Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship in the first case when a person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility.

In addition to opening of a deposit/loan account banks provide variety of services, which makes the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

Special Relationship:

1. **Bank as a Trustee**: As per Sec. 3 of Indian Trust Act, 1882 _ A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.' Thus trustee is the holder of property on behalf of a beneficiary.

As per Sec. 15 of the _Indian Trust Act, 1882 _A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.' A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.).

In case of trust banker customer relationship is a special contract. When a person entrusts valuable items with another person with an intention that such items would be returned on demand to the keeper the relationship becomes of a trustee and trustier. Customers keep certain valuables or

securities with the bank for safekeeping or deposits certain money for a specific purpose (Escrow accounts) the banker in such cases acts as a trustee. Banks charge fee for safekeeping valuable

2. **Bailee – Bailor**: Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

Banks secure their advances by obtaining tangible securities. In some cases physical possession of securities goods (Pledge), valuables, bonds etc., are taken. While taking physical possession of securities the bank becomes bailee and the customer bailor. Banks also keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as a Bailee. As a bailee the bank is required to take care of the goods bailed.

3.**Lessor and Lessee**: Sec.105 of _Transfer of property Act 1882' defines lease, Lessor, lessee, premium and rent. As per the section ―A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.‖

Definition of Lessor, lessee, premium and rent:

(1)The transferor is called the lessor,

(2)The transferee is called the lessee,

(3)The price is called the premium, and

(4)The money, share, service or other thing to be so rendered is called the rent.‖

Providing safe deposit lockers is as an ancillary service provided by banks to customers. While providing Safe Deposit Vault/locker facility to their customers bank enters into an agreement with the customer. The agreement is known as ―Memorandum of letting‖ and attracts stamp duty.

The relationship between the bank and the customer is that of lessor and lessee. Banks lease (hire lockers to their customers) their immovable property to the customer and give them.

4. **Agent and Principal**: Sec.182 of _The Indian Contract Act, 1872' defines —an agent‖ as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called —the Principal‖.

Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

Banks collect cheques, bills, and makes payment to various authorities viz., rent, telephone bills, insurance premium etc., on behalf of customers. . Banks also abides by the standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied in only when the cheque is returned in the clearinghouse.

5. **As a Custodian**: A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer's securities. While opening a dmat account bank becomes a custodian.

6. **As a Guarantor**: Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31,of Indian contract Act guarantee is a " contingent contract ". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

It would thus be observed that banker customer relationship is transactional relationship.

Termination of relationship between a banker and a customer:

The relationship between a bank and a customer ceases on:

(a) The death, insolvency, lunacy of the customer.

(b) The customer closing the account i.e. Voluntary termination
(c) Liquidation of the company
(d) The closing of the account by the bank after giving due notice.
(e) The completion of the contract or the specific transaction

Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for printing of currency notes and managing the supply of money in the Indian economy.

Initially the ownership of almost all the share capital was in the hands of non-government share holders. So in order to prevent the centralisation of the shares in few hands, the RBI was nationalised on January 1, 1949.

Functions of Reserve Bank

1. Issue of Notes —The Reserve Bank has the monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance). The Reserve Bank has adopted the **Minimum Reserve System** for issuing/printing the currency notes. *Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.*

2. Banker to the Government–The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

3. Banker's Bank:- The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

4. Controller of the Credit:- The RBI undertakes the responsibility of controlling credit created by the commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. **When RBI observes that the economy has sufficient money supply and it may cause inflationary situation in the country then it squeezes the money supply through its tight** monetary policy **and vice versa.**

5. Custodian of Foreign Reserves:-For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells the foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply

decreases in the economy and vice-versa. Currently India has Foreign Exchange Reserve of around US$ 360bn.

6. Other Functions:-The Reserve Bank performs a number of other developmental works. These works include the function of clearing house arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc. It also acts as *the representative of Government in International Monetary Fund (I.M.F.) and represents the membership of India.*

Monetary Policy

Monetary policy implies those measures designed to ensure an efficient operation of the economic system or set of specific objectives through its influence on the supply, cost and availability of money. The concept of monetary policy has been defined in a different manner according to different economists;

Definition of Monetary Policy

Many economists have given various definitions of monetary policy. Some prominent definitions are as follows.

According to Prof. Harry Johnson,

"A policy employing the central banks control of the supply of money as an instrument for achieving the objectives of general economic policy is a monetary policy."

According to A.G. Hart,

"A policy which influences the public stock of money substitute of public demand for such assets of both that is policy which influences public liquidity position is known as a monetary policy."

Objectives of Monetary Policy

The objectives of a monetary policy in India are similar to the objectives of its five year plans. In a nutshell, planning in India aims at growth, stability and social justice. After the Keynesian revolution in economics, many people accepted significance of monetary policy in attaining following objectives.

- Rapid Economic Growth
- Price Stability
- Exchange Rate Stability
- Balance of Payments (BOP) Equilibrium
- Full Employment
- Neutrality of Money
- Equal Income Distribution

These are the general objectives which every central bank of a nation tries to attain by employing certain tools (Instruments) of a monetary policy. In India, the RBI has always aimed at the controlled expansion of bank credit and money supply, with special attention to the seasonal needs of a credit.

Rapid Economic Growth: It is the most important objective of a monetary policy. The monetary policy **can influence economic growth by controlling real interest rate and its resultant impact on the investment**. If the RBI opts for a cheap or easy credit policy by reducing interest rates, the investment level in the economy can be encouraged. This increased investment can speed up economic growth. Faster economic growth is possible if the monetary policy succeeds in maintaining income and price stability.

Price Stability: All the economics suffer from inflation and deflation. It can also be called as Price Instability. Both inflation and deflation are harmful to the economy. Thus, **the monetary policy having an objective of price stability tries to keep the value of money stable. It helps in reducing the income and wealth inequalities.** When the economy suffers from recession the

monetary policy should be an 'easy money policy' but when there is inflationary situation there should be a 'dear money policy'.

Exchange Rate Stability: Exchange rate is the price of a home currency expressed in terms of any foreign currency. If this exchange rate is very volatile leading to frequent ups and downs in the exchange rate, the international community might lose confidence in our economy. The monetary policy aims at maintaining the relative stability in the exchange rate. **The RBI by altering the foreign exchange reserves tries to influence the demand for foreign exchange and tries to maintain the exchange rate stability.**

Balance of Payments (BOP) Equilibrium: Many developing countries like India suffers from the Disequilibrium in the BOP. The Reserve Bank of India through its monetary policy tries to maintain equilibrium in the balance of payments. The BOP has two aspects i.e. the 'BOP Surplus' and the 'BOP Deficit'. The former reflects an excess money supply in the domestic economy, while the later stands for stringency of money. If the monetary policy succeeds in maintaining monetary equilibrium, then the BOP equilibrium can be achieved.

Full Employment: The concept of full employment was much discussed after Keynes's publication of the "General Theory" in 1936. It refers to absence of involuntary unemployment. In simple words 'Full Employment' stands for a situation in which everybody who wants jobs get jobs. However it does not mean that there is Zero unemployment. In that senses the full employment is never full. Monetary policy can be used for achieving full employment. **If the monetary policy is expansionary then credit supply can be encouraged. It could help in creating more jobs in different sector of the economy.**

Neutrality of Money: Economist such as Wicksted, Robertson have always considered money as a passive factor. According to them, money should play only a role of medium of exchange and not more than that. Therefore, the monetary policy should regulate the supply of money. The change in money supply creates monetary disequilibrium. Thus monetary policy has to regulate the supply of money and neutralize the effect of money expansion. However this objective of a monetary policy is

always criticized on the ground that if money supply is kept constant then it would be difficult to attain price stability.

Equal Income Distribution: Many economists used to justify the role of the fiscal policy is maintaining economic equality. However in recent years economists have given the opinion that the monetary policy can help and play a supplementary role in attainting an economic equality. Monetary policy can make special provisions for the neglect supply such as agriculture, small-scale industries, village industries, etc. and provide them with cheaper credit for longer term. This can prove fruitful for these sectors to come up. Thus in recent period, monetary policy can help in reducing economic inequalities among different sections of society.

Role of Monetary Policy in developing economy

The monetary policy in a developing economy will have to be quite different from that of a developed economy mainly due to different economic conditions and requirements of the two types of economies.

A developed country may adopt full employment or price stabilisation or exchange stability as a goal of the monetary policy

But in a developing or underdeveloped country, economic growth is the primary and basic necessity. Thus, in a developing economy the monetary policy should aim at promoting economic growth, the monetary authority of a developing economy can play a vital role by adopting such a monetary policy which creates conditions necessary for rapid economic growth. Monetary policy can serve the following developmental requirements of developing economies.

1. **Developmental Role:**

Accelerating economic development by influencing the supply and uses of credit, controlling inflation, and maintaining balance of payment.

2. **Creation and Expansion of Financial Institutions**:

More banks and financial institutions should be set up, particularly in those areas which lack these facilities will help in increasing credit facilities, mobilising voluntary savings of the people, and channelizing them into productive uses.

3. **Effective Central Banking:**

To meet the developmental needs the central bank of an underdeveloped country must **function effectively to control and regulate the volume of credit through various monetary instruments, like bank rate, open market operations, cash-reserve ratio etc.**

4. **Integration of Organised and Unorganised Money Market**:

The unorganised money market remains outside the control of the central bank. By adopting effective measures, the monetary authority should integrate the unorganised and organised sectors of the money market.

5. **Developing Banking Habits:**

I**ncrease in the bank deposits by developing the banking habits of the people and popularising the use of credit instruments.**

6. **Monetisation of Economy:**

The monetary authority should take measures to monetise this non-monetised sector and bring it under its control.

7. **Integrated Interest Rate Structure:**

The monetary authority should take effective steps to integrate the interest rate structure of the economy. Moreover, a suitable interest rate structure should be developed which not only **encourages savings and investment in the country but also discourages speculative and unproductive loans.**

8. **Debt Management:**

Debt management is another function of monetary policy in a developing country. Debt management aims at (a) deciding proper timing and issuing of government bonds, (b) stabilising their prices, and (c) minimising the cost of servicing public debt.

9. **Maintaining Equilibrium in Balance of Payments**:

The monetary authority should adopt direct foreign exchange controls and other measures to correct the adverse balance of payments.

10. **Controlling Inflationary Pressures:**

Thus, the monetary policy in a developing economy should serve **to control inflationary tendencies by increasing savings by the people, checking expansion of credit by the banking system, and discouraging deficit financing by the government.**

11. **Long-Term Loans for Industrial Development:**

The **monetary authority should induce these banks to grant long-term loans to the industrial units by providing rediscounting facilities**.

12. **Reforming Rural Credit System**:

The monetary authority can play an important **role in providing both short-term and long term credit to the small arrangements, such as the establishment of cooperative credit societies, agricultural banks.**

Types of Monetary Policy

There are **two types of Monetary Policy:**

1. Expansionary Monetary Policy: The expansionary monetary policy is adopted when the economy is in a recession, and the unemployment is the problem. The expansion policy is undertaken with an aim to increase the aggregate demand by cutting the interest rates and increasing the supply of money in the economy. The money supply can be increased by buying the government bonds, lowering the interest rates and the reserve ratio. By doing so, the consumer spending increases, the private sector borrowings increases, unemployment reduces and the overall economy grows. Expansionary policy is also called as **"easy monetary policy".**

Although the expansionary monetary policy is useful during the slow period in a business cycle, it comes with several risks. Such as the economist must know when the money supply should be expanded so as to avoid its side effects like **inflation**. There is often a time lag between the time the policy is made and the time it is implemented across the economy, so up-to-the-minute analysis of the policy is quite difficult or impossible. Also, the central bank and legislators must know when to stop the supply of money in the economy and apply a **Contractionary Policy.**

2. Contractionary Monetary Policy: The Contractionary Monetary policy is applied when the inflation is a problem and economy needs to be slow down by curtailing the supply of money. The inflation is characterized by increased money supply and increased consumer spending. Thus, the Contractionary policy is adopted with an aim to decrease the money supply and the spending in the

economy. This is primarily done by increasing the interest rates so that the borrowing becomes expensive.

Thus, these are the monetary policies applied by the monetary authority to control the inflationary or recessionary pressures in the economy.

Instruments of Monetary Policy:

The instruments of monetary policy are of two types: first, quantitative, general or indirect; and second, qualitative, selective or direct. They affect the level of aggregate demand through the supply of money, cost of money and availability of credit. Of the two types of instruments, the first category includes bank rate variations, open market operations and changing reserve requirements. They are meant to regulate the overall level of credit in the economy through commercial banks. The selective credit controls aim at controlling specific types of credit. They include changing margin requirements and regulation of consumer credit. We discuss them as under:

Quantitative Methods

1. Bank Rate Policy

2. Open Market Operations

3. Variation of Cash Reserve Ratios

4. Fixation of Lending Rates of Commercial Banks

5. Credit Squeeze

Qualitative Methods

1. Fixation of Margin Requirements

2. Regulation of Consumer Credit

3. Control through Directives

4. Rationing of Credit

5. Prior Authorization Schemes

6. Moral Suasion

7. Direct Action

8. 'Repo' Transactions

Let us discuss these methods here under:

Quantitative Credit Control by RBI

These methods are called traditional methods because they have been in use for decades. Through these methods, the credit creation is controlled by changing the cash reserves of commercial banks.

The methods of Bank Rate Policy, open market operations and variation of Cash Reserve Ratios, etc., are designed to effect the lendable resources of commercial banks either directly affecting their reserve base or by making the cost of funds cheaper or dearer to them. The important methods of this nature are explained herein below:

1. Bank Rate Policy

According to the Reserve Bank of India Act, the Bank Rate is defined as **"the standard rate at which the RBI is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under the provisions of the Act ".**

Thus, the bank rate is the rate of interest at which RBI rediscounts the first-class bills in the hands of commercial banks to provide them with liquidity in case of need. However, presently RBI does not accept any bills for re-discounting. This function is being done by separate financial institutions like DHFI created for similar purposes.

The bank rate policy as an instrument of monetary control was not successful in India for a long time. The main factors responsible for this are

(i) Inherent inflexibility involved in the use of this instrument.

(ii) The dominance of the Public Sector whose investment requirements are cost inelastic.

(iii) The higher rate of inflation experienced in the economy.

(iv) Restricted availability of refinance facilities to banks.

(v) As the government expenditure increase, the tax burden also increases. Under heavy taxation, the businessmen feel that the interest rate is a minor factor. And the decrease in the importance of interest rate has led to the decline in the importance of bank rate.

The effectiveness of this instrument can be improved by restructured monetary system. Particularly necessary steps are to be taken to develop an active money market in the economy.

2. Open Market Operations

Open market operations are conducted by the RBI mainly with a view to manage short- term liquidity in the market. These operations directly or indirectly affect the reserves of the commercial banks and thereby the extent of credit creation is controlled.

Section17 (8) of the Reserve Bank of India Act confers legal powers on the Reserve Bank to use this instrument of monetary policy**. Under this section the Reserve Bank is authorized to purchase and sell the securities of the Central or State Government of any maturity and the security of a local authority specified by the central government on the recommendation of the banks central board.**

It will sell the securities in open market to drain out excess liquidity from the financial system and thereby contraction of credit. When it buys securities it injects additional funds into the market and consequently credit expansion may take place. "Repos" and "Reverse Repos" transactions may be considered a supplementary operation to this system.

3. Variation of Cash Reserve Ratios

Under this requirement, certain percentage of Deposit liabilities of banks is impounded in cash form with RBI and/or to be maintained in liquid assets like government securities. The reserve requirements were originally evolved as a means for safeguarding the interests of depositors.

Later it was developed as an instrument of credit control. The variation in the reserve requirements has the effect of increasing or decreasing the funds available with commercial banks for lending. In India, the reserve requirements are of two types. They are,

(a) The Cash Reserve Ratio, and

(b) The Statutory Liquidity Ratio.

(a) Cash Reserve Ratio:

Under the provisions of the RBI Act, the Scheduled banks were required to maintain a minimum amount of cash reserve with the Reserve Bank. The reserve is made out of demand and time liabilities at certain percentage fixed by the RBI.

Section 42 (1) of the Act empowers the RBI to stipulate, by giving notification in the Gazette, the percentage of reserve, on the total net demand and time liabilities to be maintained by every banking company with RBI. In terms of Section 18 of RBI Act non-scheduled banks can maintain the cash reserve either with them or with RBI in cash.

The cash Reserve Ratio is required to be maintained in cash with RBI, in addition to the percentage to be maintained under the Statutory Liquidity Ratio. The cash Reserve Ratio cannot exceed 15% of the net demand and time Liabilities.

The Cash Reserve Ratio at the time of notification of banks was 3% which having been revised a number of times. The flat rate of 15% was introduced in the credit policy for the first half of 1989-90.

(b) Statutory Liquidity Ratio:

Under Section 24 of the Banking Regulation Act 1949, RBI is empowered to stipulate the liquid assets every banking company is required to hold against their demand and time liabilities in addition to cash reserve requirement.

Accordingly the banks both scheduled and non-scheduled have to maintain liquid assets in cash, gold or unencumbered approved securities amounting to not less than 25% of their net demand and time liabilities in India.

This requirement of 25% can be increased by the RBI from time to time by a notification in the official Gazette. But the ratio so prescribed cannot exceed 40% (In the first half of 1986-87 the ratio was 37%) however; Regional Rural Banks, non-scheduled Banks and co-operative Banks are

allowed to maintain statutory Liquidity Ratio at 25% only. Further, all banks are required to maintain this reserve only at 25% in respect of N.R.E accounts.

The main object of SLR is,

(a) To assure solvency of Commercial banks by compelling them to hold low risk assets up to the stipulated extent.

(b) To create or support a market for government securities in the economy which do not have a developed capital market and

(c) To allocate resources to government for augmenting the resources of the Public Sector.

Banks like Regional Rural Banks may hold entire SLR requirements in the form of cash with the sponsor banks.

Effects of Statutory Liquidity Ratio

The main purpose of prescribing SLR is to ensure the liquidity position of banks in meeting the withdrawal requirements of depositors. Since these funds are mostly invested in Government Securities they are considered to be highly liquid and also no risk of loss of value, i.e., they can be encased at quick notice or immediately.

One of the effects of SLR is to raise or lower the liquidity requirements of banks thus affecting their capacity to lend. In order to discourage the banks from contravening the liquidity provisions, the RBI may not allow the defaulting banks access to further refinance and may charge additional interest on their borrowings from it.

4. Fixation of Lending Rates of Commercial Banks

The RBI controls the credit created by the commercial banks by fixing the lending rates of the banks. **When the lending rates are fixed at higher level, the credit becomes costlier and it may lead to contraction of credit. Similarly when the rates are lowered, it may result into expansion of credit.**

Besides controlling the rates of interest on the advances made by the banks, the RBI places certain restrictions on the grant of advances against term deposits. These relate to the quantum of advance that can be granted and the rate of interest to be charged.

5. Credit Squeeze

When the bank rate policy has not been successful in controlling the expansion of credit, the method of credit squeeze is useful. **Under this method, the maximum amount of bank credit is fixed at a certain limit. and, the maximum limit for commercial banks borrowing from the RBI is also fixed.**

The banks are not allowed to expand the credit beyond these limits. These limits may be fixed in general for all credits or may be sector-specific like for steel industry, textile industry, etc.

But it should be noted that a general credit squeeze may make the trade and industry suffer even for legitimate purposes. Reserve Bank rarely applies credit squeeze these days.

Qualitative Credit Control by RBI

The selective or qualitative credit control is intended to ensure an adequate credit flow to the desired sectors and preventing excessive credit for less essential economic activities. The RBI issues

directives under Section 21 of the Banking Regulation Act 1949, to regulate the flow of banks' credit against the security of selected commodities.

It is usually applied to control the credit provided by the banks against certain essential commodities which may otherwise lead to traders using the credit facilities for hoarding and black marketing and thereby permitting spiralling prices of these commodities. The selective credit control measures by RBI are resorted to commodities like, wheat, sugar, oilseeds, etc.

Methods of Selective Credit Control

The RBI adopts a number of credit control methods from time to time. The important methods are given here under.

1. Fixation of Margin Requirements on Secured Loans

Here the term "margin "refers to a portion of the loan amount which cannot be borrowed from bank. In other words, the margin money is required to be brought in by the borrower from his own sources. This much percentage of money will not be lent by banks. The RBI lowers the margin to expand the credit and raises margin to contract or control the credit for stock market operations.

This system was introduced in 1956. The RBI has been prescribing minimum margin for advances against commodities under selective credit control. To begin with there was a single margin for each commodity.

2. Regulation of Consumer Credit

The credit facilities provided by the banks to purchase durable consumer goods like cars, refrigerators, T.V. furniture, etc. is called as consumer credit. If consumer credit is expanded, it leads to the increase in production of consumer goods in the country.

Such increased sale of consumer goods will affect savings of people and capital formation in the economy. Hence, RBI may control the consumer credit extended by the commercial banks. These

days RBI does not use such credit control measure as increased consumption lead to more economic activity.

3. Control through Directives

The Reserve Bank of India (Amendment) Act and the Banking Companies Act has empowered the RBI to issue directives to a particular bank or to the banks in general in regard to the following:

The purpose for which advances may or may not be made, the maximum amount of advances that can be granted to any individual, firm or company; the margins to be maintained on secured loans, and the rate of interest to be charged, etc.

For example,

(a) Banks are not allowed to provide finance for speculative purposes in stock market operations or to deal in real estate business.

(b) No banks can make advances to a single borrower company beyond 25 per cent of its paid-up capital and reserves.

(c) Reserve Bank prescribes margin on advances made by banks against the security of Commodities covered under selective credit control measures like sugar.

(d) Advances made under DRI scheme should be only at interest rate prescribed by RBI, i.e., 4 per cent per annum.

The RBI has used this weapon for many times to bring down the prices of agricultural commodities. The directives are issued by the RBI as supplement to the traditional weapons of control like the bank rate policy, open market operations, etc.

4. Rationing of Credit

This method is used to control the scheduled banks borrowings from the RBI. The RBI shows **differential treatment in giving financial help to its member banks according to the purpose for which the credit is used.**

This is done by framing different eligibility rules for various kinds of paper, as well as offering differential rates of rediscount on different kinds of bills offered for rediscount.

The RBI prescribed a lower rate of interest on advances to sectors like export trade, small scale industries and agriculture. Higher rate of interest was fixed for general loans.

5. Credit Authorization Scheme

Under this Scheme, the commercial banks have to obtain the RBI's prior approval for sanctioning any fresh credit of Rs. 1 crore or more to any single party in the private sector and for sanctioning any fresh credit of Rs.5 crore or more to any single concern in the public sector. The scheme has however, been discontinued from November 1988. Presently no authorization is required from RBI for commercial banks sanctioning credit limit.

6. Moral Suasion

Originally this system was adopted to ensure that borrowers actual need that much credit facility and to find out the purposes for which it was required, was also ensured that most credit facility was not cornered by few borrowers.

In addition to the methods of credit control as given above, the RBI has been exercising moral suasion on banks. **Moral suasion is a means of strengthening mutual confidence an understanding between the monetary authority and the banks as well as financial institute** and, therefore, is an essential instrument of monetary regulation.

7. Direct Action

When the moral suasion proves ineffective the RBI may have to use direct action on banks. The RBI is empowered to take certain penal actions against banks which do not follow the line of policy dictated by it. The banks in default will be made to suffer by way of the following:

(i) Levying penal interest rates on the defaulting banks.

(ii) Cancelling the licences of such banks (extreme step)

(iii) Refusing to grant refinance facilities to such banks

(iv) Putting lending restrictions on the banks.

(v) Not permitting opening of new branches for the banks.

(vi) Not allowing participation in money market, etc.

This method is essentially a corrective measure which may bring about some psychological pressure on the commercial banks to follow the RBI instructions.

UNIT-II - Commercial banks

SYLLABUS

Unit – II: Commercial banks – Structure of the banking system – PSU and Private Banks - Foreign banks - RRBs and Cooperative bank – Developmental financial institutions - Current development – Retail banking - Corporate banking – International banking - NBFCs - Electronic Banking: Internet Banking - Credit and Debit cards – ECS, NEFT, RTGS - Risks in e-banking.

Commercial Banks

A commercial bank is a kind of financial institution which carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, etc. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which banks lends the money is called the lending rate.

Function of Commercial Bank:

The functions of commercial banks are classified into two main division.

(a) Primary functions –

- **Accepts deposit** – The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary required of commercial transactions.
- **Provides Loan and Advances** – Another critical function of this bank is to offer loans and advances to the entrepreneurs and businesspeople and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of

deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, and short-run loans etc.

- **Credit Cash-** When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows a bank to create money.

(b) Secondary functions –

- **Discounting bills of exchange** – It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.
- **Overdraft Facility** – It is an advance given to a customer by keeping the current account to overdraw up to the given limit.
- **Purchasing and Selling of the Securities** – The bank offers you with the facility of selling and buying the securities.
- **Locker Facilities** – Bank provides lockers facility to the customers to keep their valuable belonging or documents safely. Banks charge a minimum of an annual fee for this service.
- **Paying and Gather the Credit** – It uses different instruments like a promissory note, cheques, and bill of exchange.

Types of Commercial Bank:

There are three different types of commercial bank.

- **Private Bank** – It is one type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. For example, Bank of Baroda, State Bank of India (SBI), Dena Bank, Corporation Bank, and Punjab National Bank.

- **Public Bank** – It is that type of bank that is nationalized, and the government holds a significant stake. Such as Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank, and Vysya Bank etc.
- **Foreign Bank** – These banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank, and Citibank etc.

BANKING STRUCTURE IN INDIA

Reserve Bank of India (RBI)

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

Scheduled & Non –scheduled Banks

A scheduled bank is a bank that is listed under the second schedule of the RBI Act, 1934. In order to be included under this schedule of the RBI Act, banks have to fulfill certain conditions such as having a paid up capital and reserves of at least 0.5 million and satisfying the Reserve Bank that its affairs are not being conducted in a manner prejudicial to the interests of its depositors. Scheduled banks are further classified into commercial and cooperative banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

Commercial Banks

Commercial banks may be defined as, any banking organization that deals with the deposits and loans of business organizations. Commercial banks issue bank checks and drafts, as well as accept money on term deposits. Commercial banks also act as moneylenders, by way of installment loans and overdrafts. Commercial banks also allow for a variety of deposit accounts, such as checking,

savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals.

Scheduled Commercial Banks (SCBs):

Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks. SCBs in India are categorized into the five groups based on their ownership and/or their nature of operations. State Bank of India and its six associates (excluding State Bank of Saurashtra, which has been merged with the SBI with effect from August 13, 2008) are recognised as a separate category of SCBs, because of the distinct statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them. Nationalised banks and SBI and associates together form the public sector banks group IDBI ltd. has been included in the nationalised banks group since December 2004. Private sector banks include the old private sector banks and the new generation private sector banks- which were incorporated according to the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993.

Foreign banks are present in the country either through complete branch/subsidiary route presence or through their representative offices.

Types of Scheduled Commercial Banks

Public Sector Banks

These are banks where majority stake is held by the Government of India. Examples of public sector banks are: SBI, Bank of India, Canara Bank, etc.

Private Sector Banks

These are banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Examples of private sector banks are: ICICI Bank, Axis bank, HDFC, etc.

Foreign Banks

These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Examples of foreign banks in India are: HSBC, Citibank, Standard Chartered Bank, etc

Regional Rural Banks

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.

RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

Prathama bank is the first Regional Rural Bank in India located in the city Moradabad in Uttar Pradesh.

Type of Commercial Banks	Major Shareholders	Major Players
Public Sector Banks	Government of India	SBI, PNB, Canara Bank, Bank of Baroda, Bank of India, etc
Private Sector Banks	Private Individuals	ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank, Yes Bank etc.
Foreign Banks	Foreign Entity	Standard Chartered Bank, Citi Bank, HSBC, Deutsche Bank, BNP Paribas, etc.
Regional Rural Banks	Central Govt, Concerned State Govt and Sponsor Bank in the ratio of 50 : 15 : 35	Andhra Pradesh Grameena Vikas Bank, Uttranchal Gramin Bank, Prathama Bank, etc.

Cooperative Banks

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc).

They provide limited banking products and are specialists in agriculture-related products.

Cooperative banks are the primary financiers of agricultural activities, some small-scale industries and self-employed workers.

Co-operative banks function on the basis of "no-profit no-loss".

Anyonya Co-operative Bank Limited (ACBL) is the first co-operative bank in India located in the city of Vadodara in Gujarat.

The co-operative banking structure in India is divided into following main 5 categories:

•	Primary Urban Co-op Banks
•	Primary Agricultural Credit Societies
•	District Central Co-op Banks
•	State Co-operative Banks
•	Land Development Banks

Difference between Scheduled Commercial and Schedule Co-operative Banks

The basic difference between scheduled commercial banks and scheduled cooperative banks is in their holding pattern. Scheduled cooperative banks are cooperative credit institutions that are registered under the Cooperative Societies Act. These banks work according to the cooperative principles of mutual assistance. Also, unlike commercial banks, these banks work on the basis of "no-profit no-loss".

How Banks Function

Banks make money by lending your money out at interest and by charging you for services provided. Banks keep on lending money.

The other big revenue items generated by banks are the fees they charge. Bank charge for every service, whether it is for an electronic transaction, or permitting a transfer through the Internet banking system.

The banking industry in India is highly regulated. Few important regulations are mentioned below:

Regulatory Requirements

A bank has to set aside a certain percentage of total funds to meet regulatory requirements. The Primary regulatory ratios are **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR).** RBI uses both these instruments to regulate money supply in the economy.

CRR is the percentage of net total of deposits a bank is required to maintain in form of cash with RBI. Currently this ratio is at 5.5%. This is used to control the liquidity in the economy. Higher the CRR, the lower is the amount that banks will be able to use for lending activities and vice versa.

SLR is the minimum percentage of deposits that the bank has to maintain in form of gold, cash and/or other approved securities. Currently, the SLR is 24%. This is used to regulate the credit growth.

The core operating income of a bank is interest income (comprises 75-85% in the total income of almost all Indian Banks). Besides interest income, a bank also generates fee-based income in the form of commissions and exchange, income from treasury operations and other income from other banking activities. As banks were assigned a special role in the economic development of the country, RBI has stipulated that a portion of bank lending should be for the development of under-banked and under-privileged sections, which is called the priority sector. Current rules stipulate that domestic banks should lend 40% and the foreign banks should lend 32% of their net credit to the priority sector. On the cost sides, the major items for a bank are interest paid on different types of deposits, bonds issued and borrowings, and provisioning cost for Non-performing Assets (NPAs).

Types of Businesses of Banks

The banking business can be broadly categorized into Retail Banking, Wholesale or Corporate Banking, Treasury Operations and Other Banking Activities.

Business Segmentation	
Retail Banking	Loans to individuals (Housing loan, Auto loan, Education loan and other personal loan) or small businesses.
Wholesale banking	Loans to mid and large corporate (Project Finance, Working Capital Loans, Terms Loans, Lease Finance, etc.)
Treasury Operations	Investment in bonds, equity, Mutual Funds, commodities, derivatives; trading and forex operations
Other Banking Activities	Hire purchase activities, leasing business, merchant banking, Syndication services, etc.

Retail banking also known as **Consumer Banking** is the provision of services by a bank to individual consumers, rather than to companies, corporations or other banks. Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards**.** Retail banking segment is the highest margin business as compared to other business segments in the banking industry. Currently, ICICI Bank is the largest players in this segment in India. Other major players in this segment are SBI, PNB, HDFC Bank, etc.

Typical products offered by a retail bank include:

•	Savings /Current accounts
•	Debit cards
•	ATM cards
•	Credit cards

•	Traveler's cheques
•	Mortgages
•	Home equity loans
•	Personal loans
•	Certificates of deposit/Term deposits

Wholesale banking is the provision of services by banks to organizations such as Mortgage Brokers, large corporate clients, mid-sized companies, real estate developers and investors, international trade finance businesses, institutional customer(such as pension funds and government entities/agencies), and services offered to other banks or other financial institutions.

Wholesale finance refers to financial services conducted between financial services companies and institutions such as banks, insurers, fund managers, and stockbrokers.

Modern wholesale banks engage in:

•	Finance wholesaling
•	Underwriting
•	Market making
•	Consultancy
•	Mergers and acquisitions
•	Fund management

Wholesale banking segment in India is largely dominated by large Indian banks – SBI, ICICI Banks, PNB, BoB, etc.

Treasury management (or **treasury operations**) includes management of an enterprise's holdings, with the ultimate goal of managing the firm's liquidity and mitigating its operational, financial and reputational risk. Treasury Management includes a firm's collections, disbursements, concentration, investment and funding activities. In larger firms, it may also include trading in bonds, currencies, financial derivatives and the associated financial risk management. Most banks have whole departments devoted to treasury management and supporting their clients' needs in this area.

MEANING OF INTERNATIONAL BANKING

International banking is just like any other banking service, but it takes place across different nations or internationally. To put in another way, international banking is an arrangement of financial service by a residential bank of one country to the residents of another country. Mostly multinational companies and individuals use this banking facility for transacting.

Let us take an example to understand international banking in a better way.

EXAMPLE OF INTERNATIONAL BANKING

Suppose Microsoft, an American company is functioning in London, It is in need of funds to meet its working capital requirements. In such scenario, Microsoft can avail the banking services in form of loans, overdraft or any other financial service through banks in London. Here, the residential bank of London shall be giving its services to an American company. Therefore, the transaction between them can be said to be part of international banking facility.

FEATURES AND BENEFITS OF INTERNATIONAL BANKING

FLEXIBILITY

International banking facility provides flexibility to the multinational companies to deal in multiple currencies. The major currencies that multinational companies or individuals can deal with include euro, dollar, pounds, sterling, and rupee. The companies having headquarters in other countries can manage their bank accounts and avail financial services in other countries through international banking without any hassle.

ACCESSIBILITY

International banking provides accessibility and ease of doing business to the companies from different countries. An individual or MNC can use their money anywhere around the world. This gives them a freedom to transact and use their money to meet any requirement of funds in any part of the world.

INTERNATIONAL TRANSACTIONS

International banking allows the business to make international bill payments. The currency conversion facility allows the companies to pay and receive money easily. Also, the benefits like overdraft facility, loans, deposits, etc. are available every time for overseas transactions.

ACCOUNTS MAINTENANCE

A multinational company can maintain the records of global accounts in a fair manner with the help of international banking. All the transactions of the company are recorded in the books of the banks across the globe. By compiling the data and figures, the accounts of the company can be maintained.

Non-Banking Financial Companies

Non-Banking Financial Companies are rising fast as an integral part of the Indian financial system. A non-banking financial institution (NBFI) or non-bank financial company (NBFC) does not have a full banking license but facilitate bank-related financial services like investment, contractual savings, and market brokering and risk pooling. They play a big role in strengthening the economy and have been able to carve out a place for themselves in meeting the credit needs of both wholesale and retail customers.

Role of NBFI in the financial system

- NBFIs act as a supplement to banks by providing infrastructure to distribute excess resources to individuals and companies with deficits.
- NBFIs also serve the additional purpose of introducing competition in financial services.

- Unlike banks who may offer a packaged deal on a set of financial services, NBFIs offer customized services to suit the specific needs of clients NBFIs specializing in one particular sector develop an informational advantage.
- From loans and credit facilities to private education funding and retirement planning, from trading in money markets to underwriting stocks and shares, and Term Finance Certificates, NBFCs offer almost all banking services. They provide wealth management services like managing stocks and shares portfolios, discounting services like discounting of instruments and give advice on merger and acquisition activities.
- The number of NBFCs has increased greatly in the last several years due to venture capital companies, retail and industrial companies have entered the lending business. NBFCs also often support property investments in property besides preparing feasibility, market or industry studies for companies.
- NBFCs are usually not allowed to take deposits from the general public and have to find options for funding their operations.
- NBFCs do not provide cheque books nor do they provide a saving account and current account. They are only authorized to takes fixed deposit or time deposits.

Some of the key regulations for acceptance of deposits by the NBFCs are

- They are allowed to accept or renew public deposits for a minimum period of 12 months and a maximum period of 60 months.
- They cannot accept deposits repayable on demand.
- They cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time.
- They cannot offer gifts/incentives or any other additional benefit to the depositors.
- They should have the minimum investment grade credit rating
- Their deposits are not insured.
- RBI does not guarantee the repayment of deposits by NBFCs.

A brief history of NFBI

- NBFCs started humbly in India in the 1960s as an alternative for savers and investors whose financial needs were not sufficiently met by the existing banking system. The NBFCs initially operated on a limited scale without making much impact on the financial industry. They invited fixed deposits from investors and worked out leasing deals for big industrial firms.

- In the first stages of development, the Companies Act regulated financing. However, the unique and complex nature of operations and with financial companies acting as financial intermediaries, there was a call for a separate regulatory mechanism.
- Hence, Chapter III B was included in the Reserve Bank of India Act, 1934, which assigned the Bank with limited authorities to regulate deposit-taking companies. Since then the RBI has initiated measures to regulate the NBFC sector.
- The RBI accepted and implemented that hire purchase and leasing companies could accept deposits to the extent of their net owned funds, as per the key recommendations of James S. Raj Study Group formed in 1975. The Companies were also required to maintain liquid assets in the form of unencumbered approved government securities.
- Between the 1980s and 1990s, NBFCs, with their customer-friendly reputation, began to attract a huge number of investors. The number of NBFCs rose swiftly from a mere 7000 in 1981 to around 30000 in 1992, which made the RBI feel the need to regulate the industry. In 1992, the RBI formed a Committee headed by the former Chairman of Bank of Baroda, Mr. A. C. Shah, to suggest measures for effective regulation of the industry. The Shah Committee's recommendations included most things from compulsory registration to prudential norms.
- In January 1997 there were huge changes in the RBI Act, 1934, especially the Chapters III-B, III-C, and V of the Act seeking to put in place a complete regulatory and supervisory structure, which would protect the interests and also ensure the smooth functioning of NBFCs.
- After the amendment of the Act in 1997, the NBFCs have grown significantly in terms of operations, range of instruments and market products, technological advancement, among others.

- In the last 20 years, the NBFCs have gained prominence and added depth to the financial sector. In August 2016, the union cabinet gave the go-ahead for foreign direct investment (FDI) under the automatic route in regulated NBFCs.

Internet banking: meaning and benefits:

E-BANKING

Online banking, also known as **internet banking**, **e-banking** or **virtual banking**, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services. Fundamentally and in mechanism, online banking, internet banking and e-banking are the same thing.

To access a financial institution's online banking facility, a customer with internet access would need to register with the institution for the service, and set up a password and other credentials for customer verification. The credentials for online banking is normally not the same as for telephone or mobile banking. Financial institutions now routinely allocate customers numbers, whether or not customers have indicated an intention to access their online banking facility. Customers' numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. The customer number can be linked to any account that the customer controls, such as cheque, savings, loan, credit card and other accounts.

The customer visits the financial institution's secure website, and enters the online banking facility using the customer number and credentials previously set up.

The types of financial transactions which a customer may transact through online banking usually includes obtaining account balances, lists of the latest transactions, electronic bill payments and funds transfers between a customer's or another's accounts. Most banks also enable a customer to download copies of bank statements, which can be printed at the customer's premises (some banks charge a fee for mailing hardcopies of bank statements). Some banks also enable customers to download transactions directly into the customer's accounting software. The facility may also enable the customer to order cheque-books, statements, report loss of credit cards, stop payment on a cheque, advise change of address and other routine actions.

Features of E-Banking

Online banking facilities typically have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories:

A bank customer can perform non-transactional tasks through online banking, including –

- o Viewing account balances
- o Viewing recent transactions
- o Downloading bank statements,
- o Viewing images of paid cheques
- o Ordering cheque books
- o Download periodic account statements
- o Downloading applications for M-banking, E-banking etc.

- Bank customers can transact banking tasks through online banking, including
  - o Funds transfers between the customer's linked accounts
  - o Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)

1. Investment purchase or sale

1. Loan applications and transactions, such as repayments of enrollments
2. Credit card applications
3. Register utility billers and make bill payments
4. Financial institution administration
5. Management of multiple users having varying levels of authority
6. Transaction approval process

Some financial institutions offer special internet banking services, for example:

Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

Security aspects of E-Banking

Security of a customer's financial information is very important, without which online banking could not operate. Similarly the reputational risks to the banks themselves are important.[5] Financial institutions have set up various security processes to reduce the risk of unauthorized online access to a customer's records, but there is no consistency to the various approaches adopted. The use of a secure website has been almost universally embraced. Though single password authentication is still in use, it by itself is not considered secure enough for online banking in some countries. Basically there are two different security methods in use for online banking:

The PIN/TAN system where the PIN represents a password, used for the login and TANs representing one-time passwords to authenticate transactions. TANs can be distributed in different ways, the most popular one is to send a list of TANs to the online banking user by postal letter. Another way of using TANs is to generate them by need using a security token. These token generated TANs depend on the time and a unique secret, stored in the security token (two-factor authentication or 2FA).

- More advanced TAN generators (chip TAN) also include the transaction data into the TAN generation process after displaying it on their own screen to allow the user

to discover man-in-the-middle attacks carried out by Trojans trying to secretly manipulate the transaction data in the background of the PC.

- Another way to provide TANs to an online banking user is to send the TAN of the current bank transaction to the user's (GSM) mobile phone via SMS. The SMS text usually quotes the transaction amount and details, the TAN is only valid for a short period of time. Especially in Germany, Austria and the Netherlands many banks have adopted this "SMS TAN" service.
- Usually online banking with PIN/TAN is done via a web browser using SSL secured connections, so that there is no additional encryption needed.
- Signature based online banking where all transactions are signed and encrypted digitally. The Keys for the signature generation and encryption can be stored on smartcards or any memory medium, depending on the concrete implementation (see, e.g., the Spanish ID card *DNI electrónico*).

Home banking

Home banking is the practice of conducting banking transactions from home rather than at branch locations. Home banking generally refers to either banking over the telephone or on the internet (i.e. online banking). The first experiments with internet banking started in the early 1980s, but it did not become popular until the mid-1990s when home internet access was widespread. Today, a variety of internet banks exist which maintain few, if any, physical branches.

Breaking down Home Banking'

The increasing popularity of home banking has fundamentally changed the character of the banking industry. Many people are able to arrange their affairs so that they seldom have need of a physical branch. Online-only banks have profited from this shift in the industry. The absence of brick and mortar locations allows many online banks to offer favorable interest rates, lower service charges, and many other incentives for those willing to bank online.

Home Banking Versus Online Banking

Online banking has become nearly synonymous with home banking as most prefer to bank via the internet instead of over the telephone. Online banks (or banks with online options) allow access for the majority of daily, traditional transactions, including deposits, checking account services, and some basic financial products like savings accounts. Online banking is generally available for both individuals and small businesses.

Mobile banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking it uses software, usually called an app, provided by the financial institution for the purpose. Mobile banking is usually available on a 24-hour basis. Some financial institutions have restrictions on which accounts may be accessed through mobile banking, as well as a limit on the amount that can be transacted.

Transactions through mobile banking may include obtaining account balances and lists of latest transactions, electronic bill payments, and funds transfers between a customer's or another's accounts. Some apps also enable copies of statements to be downloaded and sometimes printed at the customer's premises; and some banks charge a fee for mailing hardcopies of bank statements.

From the bank's point of view, mobile banking reduces the cost of handling transactions by reducing the need for customers to visit a bank branch for non-cash withdrawal and deposit transactions. Mobile banking does not handle transactions involving cash, and a customer needs to visit an ATM or bank branch for cash withdrawals or deposits. Many apps now have a remote deposit option; using the device's camera to digitally transmit cheques to their financial institution.

Mobile banking differs from mobile payments, which involves the use of a mobile device to pay for goods or services either at the point of sale or remotely, analogously to the use of a debit or credit card to effect an EFTPOS payment.

IMPS Immediate Payment service

Immediate Payment Service (IMPS) is an instant inter-bank electronic fund transfer service available 24x7, throughout the year including Sundays and any bank holiday. The beneficiary account is credited immediately when a Fund Transfer request is made through Mobile phone / Internet Banking. Customers can transfer and receive funds via IMPS using their registered Mobile number and Mobile Money Identifier (MMID) or using their Account number and IFSC code.

Benefits of IMPS

- Instant credit to the beneficiary
- Available 24x7, throughout the year including Sundays and bank holidays
- Send and receive funds with just the mobile number and MMID

Virtual Banking

A bank that offers services predominately or exclusively over the Internet. A virtual bank offers normal banking services, including access to one's checking and savings accounts and personal and business loans. Even non-virtual banks almost always offer virtual banking services. A virtual bank offers of some or all the same types of accounts and services that traditional bricks-and-mortar banks do, but virtual banks exist only online. They typically charge lower fees and pay higher interest because of low overhead. Virtual bank transactions can be checked in real time, as they happen, rather than at the end of the banking day or the end of the month – though those services may also be available through the online branches of traditional banks. Virtual banks don't have branches or own ATM machines, so you make deposits electronically or by mail. Your virtual bank may reimburse your ATM fees for using other banks' machines. However, there may be a limit to the number of transactions a virtual bank will cover each month.

E payments (electronic Payments)

A payment system is any system used to settle financial transactions through the transfer of monetary value, and includes the institutions, instruments, people, rules, procedures, standards, and

technologies that make such an exchange possible. A common type of payment system is the operational network that links bank accounts and provides for monetary exchange using bank deposits.

What makes a payment system a system is the use of cash-substitutes; traditional payment systems are negotiable instruments such as drafts (e.g., checks) and documentary credits such as letters of credit. With the advent of computers and electronic communications a large number of alternative electronic payment systems have emerged. These include debit cards, credit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce payment systems. Some payment systems include credit mechanisms, but that is essentially a different aspect of payment. Payment systems are used in lieu of tendering cash in domestic and international transactions and consist of a major service provided by banks and other financial institutions.

Payment systems may be physical or electronic and each has its own procedures and protocols. Standardization has allowed some of these systems and networks to grow to a global scale, but there are still many country- and product-specific systems. Examples of payment systems that have become globally available are credit card and automated teller machine networks. Specific forms of payment systems are also used to settle financial transactions for products in the equity markets, bond markets, currency markets, futures markets, derivatives markets, options markets and to transfer funds between financial institutions both domestically using clearing and real-time gross settlement (RTGS) systems and internationally using the SWIFT network. The term electronic payment can refer narrowly to e-commerce—a payment for buying and selling goods or services offered through the Internet, or broadly to any type of electronic funds transfer.

Requirements for E-payments

1. Security

Since payments involve actual money, payment systems will be a prime target for criminals. Since Internet services are provided today on networks that are relatively open, the infrastructure supporting electronic commerce must be usable and resistant to attack in an environment where eavesdropping and modification of messages is easy.

2. Reliability

As more commerce is conducted over the Internet, the smooth running of the economy will come to depend on the availability of the payment infrastructure, making it a target of attack for vandals. Whether the result of an attack by vandals or simply poor design, an interruption in the availability of the infrastructure would be catastrophic. For this reason, the infrastructure must be highly available and should avoid presenting a single point of failure.

3. Scalability

As commercial use of the Internet grows, the demands placed on payment servers will grow too. The payment infrastructure as a whole must be able to handle the addition of users and merchants without suffering a noticeable loss of performance. The existence of central servers through which all transactions must be processed will limit the scale of the system. The payment infrastructure must support multiple servers, distributed across the network.

4. Anonymity

For some transactions, the identity of the parties to the transaction should be protected; it should not be possible to monitor an individual's spending patterns, nor determine one's source of income. An individual is traceable in traditional payment systems such as checks and credit cards. Where anonymity is important, the cost of tracking a transaction should outweigh the value of the information that can be obtained by doing so

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5. Acceptability

The usefulness of payment mechanisms is dependent upon what one can buy with it. Thus, a payment instrument must be accepted widely. Where payment mechanisms are supported by multiple servers, users of one server must be able to transact business with users of other servers.

6. Customer base

The acceptability of a payment mechanism is affected by the size of the customer base, i.e. the number of users able to make payments using the mechanism. Merchants want to sell products, and without a large enough base of customers using a payment mechanism, it is often not worth the extra effort for a merchant to accept the mechanism.

7. Flexibility

Alternative forms of payment are needed, depending on the guarantees needed by the parties to a transaction, the timing of the payment itself, requirements for audit ability, performance requirements, and the amount of the payment. The payment infrastructure should support several payment methods including instruments analogous to credit cards, personal checks, cashier's checks, and even anonymous electronic cash. These instruments should be integrated into a common framework.

8. Convertibility

Users of the Internet will select financial instruments that best suit their needs for a given transaction. It is likely that several forms of payment will emerge, providing different tradeoffs with respect to the characteristics just described. In such an environment it is important that funds represented by one mechanism be easily convertible into funds represented by others.

9. Efficiency

Royalties for access to information may generate frequent payments for small amounts. Applications must be able to make these "micropayments" without noticeable performance degradation. The cost per transaction of using the infrastructure must be small enough that it is insignificant even for transaction amounts on the order of pennies.

10. Ease of integration

Applications must be modified to use the payment infrastructure in order to make a payment service available to users. Ideally, a common API should be used so that the integration is not specific to one kind of payment instrument. Support for payment should be integrated into request-response protocols on which applications are built so that a basic level of service is available to higher level applications without significant modification.

11. Ease of use

Users should not be constantly interrupted to provide payment information and most payments should occur automatically. However, users should be able to limit their losses. Payments beyond a certain threshold should require approval. Users should be able to monitor their spending without going out of their way to do so.

Types of E-payments

The following types of electronic payments are most common today. That said, it is important to realize that new payment types are continual being discovered and there are additional methods that exist or are being developed continuously.

Cards

Credit cards, debit cards and prepaid cards currently represent the most common form of electronic payments. For all 3 types of cards the consumer or the business most often uses a plastic card, commonly with a magnetic stripe. The cardholder gives his or her card or card number to a merchant who swipes the card through a terminal or enters the data to a PC. The terminal transmits data to his or her bank, the acquirer. The acquirer transmits the data through a card association to the card issuer who makes a decision on the transaction and relays it back to the merchant, who gives goods or services to the cardholder. Funds flow later for settlement with credit cards and are debited immediately for debit or pre-paid cards.

Along with magnetic stripe cards, smart cards are and will increasingly be used for payments. Smart cards are at present overwhelmingly plastic credit cards with an embedded computer chip. Until recently, many smart cards operated using proprietary rather than common standards. A standard set

of specifications, EMV, has been developed and is being used increasingly so that the chips on smart cards are interoperable. Korea and Japan are among the most advanced countries in Asia for smart card payments, with Malaysia catching up fast due to government mandates for banks to issue smart cards. Most credit and debit cards are expected to be issued or reissued as smart cards by 2008 or earlier.

Over time, the chip for payment can be expected to move onto other devices. A smart card might then become the computer chip in a phone, PDA or other device that can perform the same function as chip in a plastic card, eliminating the need for the actual plastic card. Smart cards could thus evolve into smart phones, smart PDAs or other smart devices.

Internet

Online payments involve the customer transferring money or making a purchase online via the internet. Consumers and businesses can transfer money to third parties from the bank or other account, and they can also use credit, debit and prepaid cards to make purchases online.

Current estimates are that over 80% of payments for online purchases are made using a credit card or debit card. At present, most online transactions involve payment with a credit card. While other forms of payment such as direct debits to accounts or pre-paid accounts and cards are increasing, they currently represent a less developed transaction methodology.

Mobile Payments

Mobile phones are currently used for a limited number of electronic transactions. However, the percentage seems likely to increase as mobile phone manufacturers enable the chip and software in the phone for easier electronic commerce.

Consumers can use their mobile phone to pay for transactions in several ways. Consumers may send an SMS message, transmit a PIN number, use WAP to make online payments, or perform other segments of their transaction with the phone. As phones develop further, consumers are likely to be able to use infrared, Bluetooth and other means more frequently to transmit full account data in order to make payments securely and easily from their phone.

Additionally, merchants can obtain an authorization for a credit or debit card transaction by attaching a device to their mobile phone. A consortium in the US also recently announced Power Swipe, for example, which physically connects to a Nextel phone, weighs 3.1 ounces, and incorporates a magnetic stripe reader, infrared printing port, and pass-through connector for charging the handset battery.

Financial Service Kiosks

Companies and service providers in several countries, including Singapore and the US, have set up kiosks to enable financial and non-financial transactions. These kiosks are fixed stations with phone connections where the customer usually uses a keyboard and television-like screen to transaction or to access information. At AXS stations in Singapore, for example, consumers can make electronic bill payments, send email or SMS message and make phone calls. Kiosks in the United States enable the customer to send money via wire transfers, cash checks, make purchases using cash, and make phone calls.

Located at convenient public locations such as bus or subway stations, convenience stores or shopping malls, these kiosks enable electronic payments by individuals who may not have regular access to the internet or mobile phones.

Television Set-Top Boxes and Satellite Receiver

Specialized boxes attached to a television can also be used for payments in some locations. The set-top box attaches to the television and a keyboard or other device, and customers can make purchases by viewing items on the television. Payment is made electronically using a credit card or other account. While usage is presently low, it could grow substantially in countries with a strong cable or satellite television network.

Biometric Payments

Electronic payments using biometrics are still largely in their infancy. Trials are underway in the United States, Australia and a limited number of other countries. Most biometric payments involve using fingerprints as the identification and access tool, though companies like Visa International are

piloting voice recognition technology and retina scans are also under consideration. Essentially, a biometric identifier such as a fingerprint or voice could replace the plastic card and more securely identifies the person undertaking the transaction. The electronic payment is still charged to a credit card or other account, with the biometric identifier replacing the card, check or other transaction mechanism.

Electronic Payments Networks

Various countries have electronic payments networks that consumer can use to make payments electronically. ACH (Automated Clearing House) in the US, domestic EFTPOS networks in Australia and Singapore, and other networks enable electronic payments between businesses and between individuals. The consumer can go online, to a financial service kiosk or use other front-end devices to access their account and make payments to businesses or other individuals.

Person-to-Person (P2P) Payments

P2P payments enable one individual to pay another using an account, a prepaid card or another mechanism that stores value. PayPal in the US, which was recently purchased by Ebay, is one of the most frequently used P2P mechanisms. The Tower Group estimates that the volume of P2P payments will grow from 105 million transactions in 2002 to 1.4 billion transactions by 2005. P2P payments can be made through a variety of means, including services like PayPal, transfers using card readers, or other. In the future other devices, such as mobile phones or PDAs, could also be used to enable P2P electronic payments.

Automated Teller Machine (ATM):

ATM is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card is replacing cheque, personal attendance of the customer, banking hours restrictions and paper based verification. There are debit cards. ATMs used as spring board for Electronic Fund Transfer. ATM itself can provide information about customers account and also receive instructions from customers - ATM cardholders.

An ATM is an Electronic Fund Transfer terminal capable of handling cash deposits, transfer between accounts, balance enquiries, cash withdrawals and pay bills. It may be on-line or 0ff-line. The on-line ATN enables the customer to avail banking facilities from anywhere. In off-line the facilities are confined to that particular ATM assigned. Any customer possessing ATM card issued by the Shared Payment Network System can go to any ATM linked to Shared Payment Networks and perform his transactions.

Cards/Debit Cards:

The Credit Card holder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a post paid card.

Debit Card, on the other hand, is a prepaid card with some stored value. Every time a person uses this card, the Internet Banking house gets money transferred to its account from the bank of the buyer. The buyers account is debited with the exact amount of purchases. An individual has to open an account with the issuing bank which gives debit card with a Personal Identification Number (PIN). When he makes a purchase, he enters his PIN on shops PIN pad. When the card is slurped through the electronic terminal, it dials the acquiring bank system - either Master Card or VISA that validates the PIN and finds out from the issuing bank whether to accept or decline the transactions. The customer can never overspend because the system rejects any transaction which exceeds the balance in his account. The bank never faces a default because the amount spent is debited immediately from the customer's account.

Smart Card: : Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart Cards allow thousands of times of information storable on magnetic stripe cards. In addition, these cards are highly secure, more reliable and perform multiple functions. They hold a large amount of personal information, from medical and health history to personal banking and personal preferences.

Tele Banking:

Undertaking a host of banking related services including financial transactions from the convenience of customers chosen place anywhere across the GLOBE and any time of date and night has now been made possible by introducing on-line Telebanking services. By dialing the given Telebanking number through a landline or a mobile from anywhere, the customer can access his account and by following the user-friendly menu, entire banking can be done through Interactive Voice Response (IVR) system. With sufficient numbers of hunting lines made available, customer call will hardly fail. The system is bi-lingual and has following facilities offered

- Automatic balance voice out for the default account.
- Balance inquiry and transaction inquiry
- All Inquiry of all term deposit account
- Statement of account by Fax, e-mail or ordinary mail.
- Cheque book request
- Stop payment which is on-line and instantaneous
- Transfer of funds with CBS which is automatic and instantaneous
- Utility Bill Payments
- Renewal of term deposit which is automatic and instantaneous Voice out of last five transactions.

E-Cheque:

An e-Cheque is the electronic version or representation of paper cheque. The Information and Legal Framework on the E-Cheque is the same as that of the paper cheque's. It can now be used in place of paper cheques to do any and all remote transactions.

An E-cheque work the same way a cheque does, the cheque writer "writes" the e-Cheque using one of many types of electronic devices and "gives" the e-Cheque to the payee electronically. The payee "deposits" the Electronic Cheque receives credit, and the payee's

bank "clears" the e-Cheque to the paying bank. The paying bank validates the e-Cheque and then "charges" the check writer's account for the check.

Electronic Clearing Service (ECS)

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed under National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI). Primarily, there are two variants of ECS - ECS Credit and ECS Debit.

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Based on the geographical location of branches covered, there are three broad categories of ECS Schemes – Local ECS, Regional ECS and National ECS.These schemes are either operated by

RBI or by the designated commercial banks. NACH is also one of the form of ECS system operated by NPCI and further details about NACH is available at NPCI web site under the link http://www.npci.org.in/clearing_faq.aspx.

Local ECS – this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.

Regional ECS – this is operating at 9 centres / locations at various parts of the country. RECS facilitates the coverage all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States. The system takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location in the State, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the State / group of States.

National ECS – this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location at Mumbai, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the country. Banks are free to add any of their core-banking-enabled branches in NECS irrespective of their location. Details of NECS Scheme are available on the website of Reserve Bank of India The list of centres where the ECS facility is available has been placed on the website of Reserve Bank of India at Similarly, the centre-wise list of bank branches participating at each location is available on the website of Reserve Bank of India

ECS (CREDIT) ECS Credit payments can be initiated by any institution (called ECS Credit User) which needs to make bulk or repetitive payments to a number of beneficiaries. The institutional User has to first register with an ECS Centre. The User has to also obtain the

consent of beneficiaries (i.e., the recipients of salary, pension, dividend, interest etc.) and get their bank account particulars prior to participation in the ECS Credit scheme. ECS Credit payments can be put through by the ECS User only through his / her bank (known as the Sponsor bank). ECS Credits are afforded to the beneficiary account holders (known as destination account holders) through the beneficiary account holders' bank (known as the destination bank). The beneficiary account holders are required to give mandates to the user institutions to enable them to afford credit to their bank accounts through the ECS Credit mechanism The User intending to effect payments through ECS Credit has to submit details of the beneficiaries (like name, bank / branch / account number of the beneficiary, MICR code of the destination bank branch, etc.), date on which credit is to be afforded to the beneficiaries, etc., in a specified format (called the input file) through its sponsor bank to one of the ECS Centres where it is registered as a User. The bank managing the ECS Centre then debits the account of the sponsor bank on the scheduled settlement day and credits the accounts of the destination banks, for onward credit to the accounts of the ultimate beneficiaries with the destination bank branches. Further details about the ECS Credit scheme are contained in the Procedural Guidelines and available on the website of Reserve Bank of India.

ECS (DEBIT)

ECS Debit transaction can be initiated by any institution (called ECS Debit User) which has to receive / collect amounts towards telephone / electricity / water dues, cess/tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc. It is a Scheme under which an account holder with a bank branch can authorise an ECS User to recover an amount at a prescribed frequency by raising a debit to his / her bank account.

The User institution has to first register with an ECS Centre. The User institution has to also obtain the authorization (mandate) from its customers for debiting their account along with their bank account particulars prior to participation in the ECS Debit scheme. The mandate has to be duly verified by the beneficiary's bank. A copy of the mandate should be available on record with the destination bank where the customer has a bank account. The ECS Debit User intending to collect receivables through ECS

Debit has to submit details of the customers (like name, bank / branch / account number of the customer, MICR code of the destination bank branch, etc.), date on which the customer's account is to be debited, etc., in a specified format (called the input file) through its sponsor bank to the ECS Centre.

The bank managing the ECS Centre then passes on the debits to the destination banks for onward debit to the customer's account with the destination bank branch and credits the sponsor bank's account for onward credit to the User institution. Destination bank branches will treat the electronic instructions received from the ECS Centre on par with the physical cheques and accordingly debit the customer accounts maintained with them. All the unsuccessful debits are returned to the sponsor bank through the ECS Centre (for onward return to the User Institution) within the specified time frame. For further details about the ECS Debit scheme, the ECS Debit Procedural Guidelines – available on the website of Reserve Bank of India

The advantages of ECS Debit to customers are many and include,

ECS Debit mandates will take care of automatic debit to customer accounts on the due dates without customers having to visit bank branches / collection centres of utility service providers etc.

Customers need not keep track of due date for payments.

The debits to customer accounts would be monitored by the ECS Users, and the customers alerted accordingly.

Cost effective.

Core Banking (Centralised Online Real time Electronic Banking)

Core banking is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices. Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers. Businesses are usually managed via the Corporate banking division of the institution. Core banking covers basic depositing and lending of money. Normal Core Banking functions will include transaction accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, mobile banking and branches. The core banking services rely heavily on computer and network technology to allow a bank to centralise its

record keeping and allow access from any location. It has been the development of banking software that has allowed core banking solutions to be developed.

Electronic Fund Transfer (EFT)

An electronic funds transfer (EFT**)** is a transaction that takes place over a computerized network, either among accounts at the same bank or to different accounts at separate financial institutions EFTs include direct-debit transactions, wire transfers, direct deposits, ATM withdrawals and online bill pay services. Transactions are processed through the Automated Clearing House (ACH) network, the secure transfer system of the Federal Reserve that connects all U.S. banks, credit unions and other financial institutions.

For example, when you use your debit card to make a purchase at a store or online, the transaction is processed using an EFT system. The transaction is very similar to an ATM withdrawal, with near-instantaneous payment to the merchant and deduction from your checking account. Direct deposit is another form of an electronic funds transfer. In this case, funds from your employer's bank account are transferred electronically to your bank account, with no need for paper-based payment systems.

The increased use of EFTs for online bill payments, purchases and pay processes is leading to a paper-free banking system, where a large number of invoices and payments take place over digital networks. EFT systems play a large role in this future, with fast, secure transactions guaranteeing a seamless transfer of funds within institutions or across banking networks. EFT transactions, also known as an online transaction or PIN-debit transaction, also offer an alternative to signature debit transactions, which take place through one of the major credit card processing systems, such as Visa, MasterCard or Discover, and can cost as much as 3% of the total purchase price. EFT processing, on the other hand, only charges an average of 1% for debit card transactions.

Real Time Gross Settlement (RTGS)

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received

rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches. [There are twelve settlements from 8 am to 7 pm on week days and six settlements from 8 am to 1 pm on Saturdays.] Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ` 2 lakh. There is no upper ceiling for RTGS transactions. Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within 30 minutes of receiving the funds transfer message.

National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. For being part of the NEFT funds transfer network, a bank branch has to be NEFT- enabled. The list of bank-wise branches which are participating in NEFT is provided in the website of Reserve Bank of India.

Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT.

However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account. Individuals, firms or corporates maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.

The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal. This is known as the Indo-Nepal Remittance Facility Scheme. A remitter can transfer funds from any of the NEFT-enabled branches in to Nepal, irrespective of whether the beneficiary in Nepal maintains an account with a bank branch in Nepal or not. The beneficiary would receive funds in Nepalese Rupees. No. There is no limit – either minimum or maximum – on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances within India and also for remittances to Nepal under the Indo-Nepal Remittance Facility Scheme. No. There is no restriction of centres or of any geographical area within the country. The NEFT system takes advantage of the core banking system in banks. Accordingly, the settlement of funds between originating and receiving banks takes places centrally at Mumbai, whereas the branches participating in NEFT can be located anywhere across the length and breadth of the country. Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.

Working of NEFT system

Step-1 : An individual / firm / corporate intending to originate transfer of funds through NEFT has to fill an application form providing details of the beneficiary (like name of the beneficiary, name of the bank branch where the beneficiary has an account, IFSC of the beneficiary bank branch, account type and account number) and the amount to be remitted. The application form will be available at the originating bank branch. The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. Customers enjoying net banking facility offered by their bankers can also

initiate the funds transfer request online. Some banks offer the NEFT facility even through the ATMs. Walk-in customers will, however, have to give their contact details (complete address and telephone number, etc.) to the branch. This will help the branch to refund the money to the customer in case credit could not be afforded to the beneficiary's bank account or the transaction is rejected / returned for any reason. Step-2 : The originating bank branch prepares a message and sends the message to its pooling centre (also called the NEFT Service Centre).

Step-3 : The pooling centre forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch.

Step-4 : The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks(credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).

Step-5 : The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary customers' accounts.

IFSC

IFSC or Indian Financial System Code is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is an 11 digit code with the first 4 alpha characters representing the bank, and the last 6 characters representing the branch. The 5th character is 0 (zero). IFSC is used by the NEFT system to identify the originating / destination banks / branches and also to route the messages appropriately to the concerned banks / branches. Bank-wise list of IFSCs is available with all the bank-branches participating in NEFT. List of bank-wise branches participating in NEFT and their IFSCs is available on the website of Reserve Bank of India . All the banks have also been advised to print the IFSC of the branch on cheques issued to their customers. Further, banks have also been advised to ensure that their branch staff provide necessary assistance to customers in filling out the required details, including IFSC details, in the NEFT application form, and also help in ensuring that there is no mismatch between the IFSC code and branch details of beneficiary branch as provided by the customer.

E-purse

Electronic money, or e-money, is the money balance recorded electronically on a stored-value card. These cards have microprocessors embedded which can be loaded with a monetary value. Another form of electronic money is network money, software that allows the transfer of value on computer networks, particularly the internet. Electronic money is a floating claim on a private bank or other financial institution that is not linked to any particular account. Examples of electronic money are bank deposits, electronic funds transfer, direct deposit, payment processors, and digital currencies.